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MASSACHUSETTS INDUSTRIAL FINANCE AGENCY

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AN INTRODUCTION TO THE INDUSTRIAL MORTGAGE INSURANCE INCENTIVE PROGRAM OF THE MASSACHUSETTS INDUSTRIAL FINANCE AGENCY

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THE AGENCY

The Massachusetts Industrial Finance Agency (MIFA) is a recently created, independent public agency that serves as the successor to the Massachusetts Industrial Mortgage Insurance Agency. Under Chapter 496 of the Acts of 1978, MIFA has assumed all assets and liabilities of the Massachusetts Industrial Mortgage Insurance Agency and is continuing its program of insuring first mortgage loans to finance industrial plant and equipment. In addition, the program has been expanded to include the rehabilitation for commercial uses of certain buildings located in downtown commercial areas.

MIFA's mortgage insurance is available for loans financing the acquisition, construction, rehabilitation, alteration and equipping of industrial development facilities, pollution control facilities and solid waste disposal facilities. MIFA's mortgage insurance is designed to encourage private lending institutions to provide more funds on more attractive lending terms for conventional mortgage loans and tax-exempt industrial revenue bonds that will assist firms wishing to establish or expand industrial facilities within Massachusetts.

MIFA is governed by a Board of Directors consisting of nine members, six of whom are appointed by the Governor from the private sector, and three of whom are public officials. The Board is required to make certain legislated findings before approving mortgage insurance for a project, and sets the insurance premium to be paid annually into the MIFA Insurance Reserve Fund. The Commonwealth has deposited $2,000,000 into the MIFA Insurance Reserve Fund to satisfy potential insurance claims, and the Fund will receive all insurance premiums on outstanding

insurance.

The Massachusetts Industrial Finance Agency was established to promote industrial growth and economic development throughout Massachusetts. MIFA seeks to work closely with local government officials, lenders, and businesses to increase use of the state's tax-exempt financing and insured mortgage incentive programs. These programs can lower both the costs of borrowing and the risks of lending, thereby stimulating more of the private investment in productive plants and equipment and revitalized commercial centers which is so essential to building more jobs and a strengthened economic base in Massachusetts.

THE INSURANCE

To encourage greater availability of industrial mortgage financing, MIFA will insure the repayment of principal to a bank or other lending institution making a first mortgage loan to an eligible borrower. By insuring the highest risk portion of the loan, MIFA increases the lender's security that it will recover its full investment in the event of a foreclosure. While MIFA's insurance obligations do not carry the full faith and credit of the Commonwealth, MIFA has received a $2,000,000 Insurance Reserve Fund, which is held by trustees for the sole benefit of lenders insured by MIFA. Lenders are also protected by statutory restrictions controlling MIFA's operations and the total amount of insurance which MIFA can issue, and by the pledge to the Insurance Reserve Fund of all future insurance premiums.

Unlike the Small Business Administration and other federal guaranty programs which share loan losses proportionately with the lender, MIFA insures the full principal loss up to the amount of the insurance. Because the insurance protects the lender against the first dollars of possible loss, and because all insured loans must be secured by a first mortgage on plant or equipment with considerable value, MIFA will insure only a portion of the loan (usually between 10% and 40%). MIFA also limits the amount of its insurance to approximately $400,000 per project ($250,000 for production machinery or pollution control facilities), although the balance of the insured loan and the total project cost can greatly exceed the amount of the insurance. A simplified illustration is attached to demonstrate how a lender can be protected by MIFA's insurance.

Tax-exempt industrial revenue bonds which are secured by first mortgages and carry interest rates significantly below conventional lending rates are eligible for insurance by MIFA. Borrowers or lenders wishing to investigate tax-exempt revenue bonds should consult MIFA's "An Introduction to the Industrial Revenue Bond Incentive Program". The provisions of MIFA's insurance program apply to requests for insurance of revenue bonds, and a consolidated application can be used for a single project under both programs.

THE INSURANCE PREMIUM

Premium charges will be set on a case-by-case basis by the Board of Directors. Generally, premiums will be in the range of 1% - 2% per year, but will be computed as a percentage only of the <u>insured portion</u> of the loan outstanding on each anniversary of the loan closing. The

first premium will be due at the closing with subsequent premiums to be billed to the lender. The lender will be responsible for collecting the premiums and paying them to MIFA on each loan anniversary date.

THE LOAN

The lender must be a responsible party capable of servicing the loan for its duration in a professional manner satisfactory to MIFA. The statutory limits for conventional loans and tax-exempt revenue bonds to be insured are as follows:

	Industrial Development Facility	Machinery and Equipment
Maximum Coverage	90% of value	80% of cost
Maximum Maturity	30 years	15 years

The actual loan terms are negotiated on an individual basis to reflect the needs and risks of each proposed project. The proceeds of insured loans must be used to provide additional plant or equipment to eligible enterprises in Massachusetts (see "The Project" below for a discussion of eligible projects.) Loans to finance working capital, raw materials, or inventory are not eligible. Refinancings generally are also not eligible. However, in cases involving substantial improvements to existing buildings already subject to a mortgage, an incidental portion of the insured loan's proceeds may be used to repay the prior loan in order to obtain a first mortgage lien on the improved property. The insurance must be committed by MIFA prior to commencement of the project by the borrower. While MIFA's commitment letter will be issued before the project is started, MIFA's guaranty agreement generally will be

delivered at the closing of the permanent loan for the project upon completion of the construction or installation of the equipment.

THE PROJECT

To be eligible for insurance, a loan must finance the acquisition, construction, rehabilitation or alteration of industrial development, pollution control, or solid waste disposal facilities. Industrial development facilities include new or improved real estate and/or equipment to be used by eligible enterprises, which are determined by MIFA's enabling statute to be industrial, recreational or research and development enterprises, and in the case of certain buildings to be rehabilitated, commercial enterprises. The project to be financed must be located in Massachusetts and may include buildings, land, improvements to land, furnishings, machinery and equipment, as well as facilities which are incidental thereto or used in connection therewith, such as office, warehouse, terminal, transportation, utility, and back-up power generating facilities.

For a commercial project to be eligible, the insured loan must be used for the rehabilitation of one or more existing buildings which are located in the community's downtown commercial area within the parameters of a commercial area revitalization plan adopted by the governing body of the community and which are designated in that plan as "due to their location, character, or significance are such an integral part of the plan that their preservation and rehabilitation are vital to the success of the plan".

Any project funded by an insured loan must make a significant contribution to the expansion or retention of employment within Massachusetts. Employment created or secured by the insurance program must be substantially full-time, non-seasonal jobs paying fifty percent over the national minimum wage and offering adequate fringe benefits such as health insurance.

THE BORROWER

In most instances the borrower will be the "eligible enterprise" that occupies or uses the project to be financed. The eligible enterprise, however, need not be the borrower or owner of the project if the use and occupancy of the real estate and/or equipment to be financed by the insured loan is transferred to the eligible enterprise. In such cases a reasonable rate of return on equity to the developer, trust, partnership or other entity owning the property may be allowed, provided that the primary recipient of the benefits from the insured loan is the eligible enterprise. Private developers must be experienced as owners and managers of the type of property proposed and must possess an excellent credit reputation. Personal guarantees of the principals generally will be required in the case of closely-held companies.

THE PROCEDURE

A. Project Information Statement

Requests for insurance are initiated by the submission of a Project Information Statement to determine the eligibility of the proposed project for industrial mortgage insurance as well

as to serve as a preliminary screening vehicle for unrealistic proposals prior to the applicant incurring the expense, time and effort of a formal application. No fee is charged for this review and the applicant need not have obtained a lender at this stage. If possible, MIFA will assist the applicant to arrange a financial package with lenders, or will direct the applicant to other capital sources. MIFA's staff will be pleased to discuss possible projects with potential applicants or lenders prior to the filing of a Project Information Statement.

B. Credit Application

A formal Credit Application is submitted after the Project Information Statement has been reviewed and the project appears eligible and feasible to the MIFA staff. Sponsorship by a lending institution is necessary at this stage and the proposed terms and conditions of the loan are to be indicated on the application. The Credit Application requests information about the project and financial history and projections for the applicant (and/or other related parties as appropriate). An Application Fee must accompany this application. The Board of Directors will consider the project as soon as possible after the Credit Application is received by MIFA.

C. Insurance Commitment

Upon approval by the Board of Directors of a request for mortgage insurance, an insurance Commitment Letter will be issued setting forth the amount, terms, and conditions upon which the mortgage will be insured, including any special requirements applicable to the project. The insurance Commitment Fee is due upon written acceptance by the lender and acknowledgment by the borrower of the terms and conditions of the Commitment Letter.

D. Initiation of the Project

The purpose of MIFA's insurance program is to induce borrowers to undertake, and lenders to finance, eligible projects. Therefore, the Commitment Letter must be issued before the project is commenced.

E. Guaranty Agreement

The Guaranty Agreement providing the insurance generally will be issued upon completion of construction and/or installation of the project and fulfillment of the conditions outlined in the Commitment Letter. This usually coincides with the closing of the permanent financing for the project. Payment of the first year's insurance premium is required at the time of delivery of the Guaranty Agreement. The insurance may be cancelled at any time by the lender.

THE PROCESSING FEES

Since operating expenses of MIFA should be supported from the fees charged, the following non-refundable fees (in addition to such insurance premiums as may become due upon closing of the loan and annually thereafter) are due and payable to MIFA as follows:

Application Fee:

When:	Submit with Credit Application
Rate:	1/8% (.125%) of loan amount requested
Minimum:	$500

Insurance Commitment Fee:

When:	Upon acceptance of insurance Commitment Letter
Rate:	1% of insurance amount granted
Minimum:	$500

Fee Adjustments:

1. Subsequent requests for increases in the amount of the insurance commitment prior to closing will incur an incremental fee of 1% of the requested increase, with a minimum of $500
2. Extensions of insurance commitments beyond the normal one-year period may be granted in three-month increments at the proportional commitment fee rate.

Borrowers are also responsible for MIFA's expenses for an appraisal of the collateral and legal assistance relating to the project. An appraisal is usually filed with the Credit Application; legal fees usually are not incurred until preparation of the Commitment Letter.

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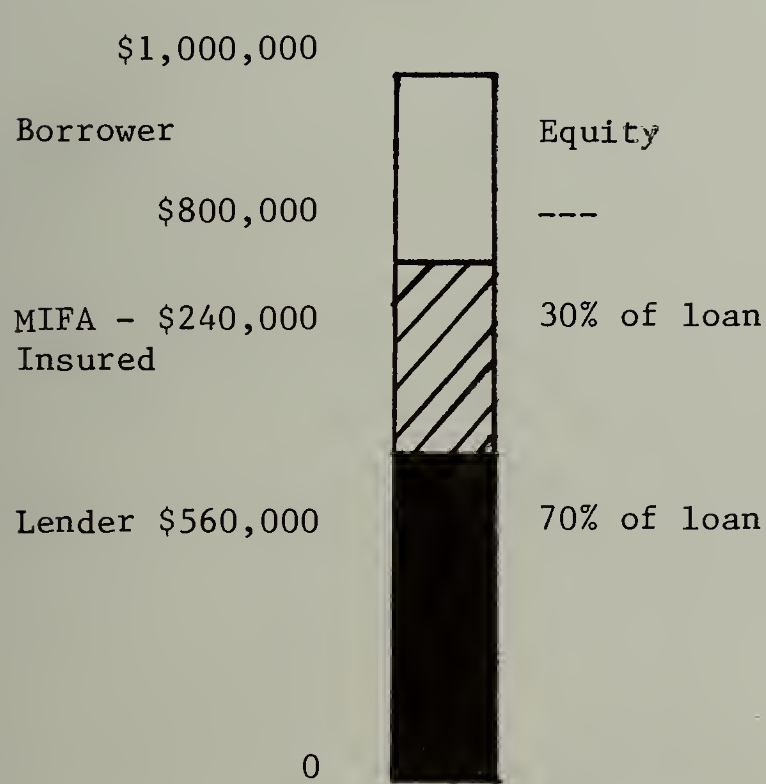
Copies of the Project Information Statement, Credit Application and Guaranty Agreement are available on request. For further information, forms or assistance, give us a call at 617-723-4242.

MORTGAGE INSURANCE ILLUSTRATION

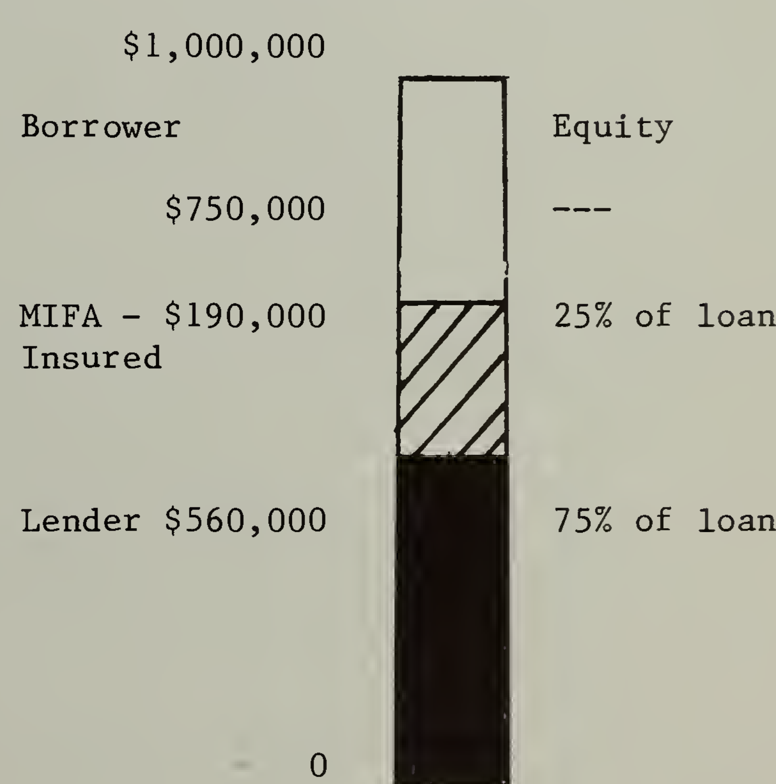
Proposal:	Eligible borrower needs to expand its facilities through the acquisition or construction of a new plant
	Total Cost....$1,000,000
Financing Terms:	First Mortgage, 80% loan, 10%, 25 years..........$ 800,000
	Insurance Amount (30% of loan)..................$ 240,000
	First year Insurance Premium, @ 1.5%.............$ 3,600
	Fifth year Insurance Premium, @ 1.5 %...........$ 2,850

Graphically, each party has the following risk exposure on the day of closing and in the fifth year, respectively:

AT CLOSING



AFTER 5 YEARS



Through the use of mortgage insurance the bank's risk is limited to 56% of the total project cost.

This example could be the same in the case of an industrial revenue bond, except that the interest rate would be substantially lower.

Assume that in the fifth year, a default occurs and the plant is sold for $600,000:

Loan Balance @ 5 years	$750,000
Less Sale Proceeds	$600,000
Deficiency	$150,000
Less Mortgage Insurance	$150,000
Principal Loss to Bank	-0-